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TO RHEBAAA/DEPT OF ENERGY WASHDC IMMEDIATE
RUEHC/SECSTATE WASHDC PRIORITY 1624
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
RUEHLO/AMEMBASSY LONDON 1070

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DEPARTMENT OF ENERGY FOR SECRETARY BODMAN, MWILLIAMSON AND
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DEPARTMENT OF ENERGY FOR IE
EB/ESC/IEC FOR GALLOGLY, DOWDY

E.O. 12958: DECL: 11/15/2015
TAGS: [ENRG](#) [EPET](#) [OVIP](#) [PREL](#) [KU](#)
SUBJECT: SCENESETTER FOR SECRETARY BODMAN'S NOVEMBER 13-14,
2005 VISIT TO KUWAIT

Classified By: Ambassador Richard LeBaron for reason 1.4 (d)

¶1. (SBU) Secretary Bodman will arrive about one week after the celebration of the end of the month of Ramadan. He will meet with Energy Minister Shaykh Ahmad Fahd Al-Ahmad Al-Sabah and Foreign Minister Shaykh Dr. Mohammed Sabah Al-Salem Al-Sabah. He will also meet with Prime Minister Shaykh Sabah Al-Ahmad Al-Jaber Al-Sabah if he returns in time to Kuwait from vacation. As the Energy Minister closes out his OPEC Presidency, he is uniquely positioned to offer insights into OPEC directions and strategies, as well as into Kuwait's own long-term plans for its own petroleum sector.

¶2. (S) The visit comes at an opportune moment in the bilateral relationship. Kuwait has pledged an extraordinarily generous aid package for the victims of Hurricane Katrina, and continues to provide assistance to USG priority areas such as Iraq, Afghanistan and Pakistan. Since early 2002, the GOK has provided billions of dollars in free and discounted jet fuel for use by Coalition Forces in Operation Iraqi Freedom, and continues to do so. Our energy dialogue has a renewed vigor, with a recent visit to the U.S. by Ministry of Energy Undersecretary Issa Al-Own laying the groundwork for future cooperation.

¶3. (SBU) Kuwait publicly claims to have 105 billion barrels of crude reserves, or about 8 percent of the world's total. It currently produces about 2.5 million barrels per day and hopes to raise that to 4 mbpd by 2020. To do this, Kuwait must bring in outside technical assistance and foreign investment. The visit provides an excellent opportunity to make the case that U.S. companies can offer the best of both.

¶4. (U) While the technical and managerial expertise of U.S. companies has always been welcome in Kuwait, the current crop of business opportunities and direct investment potential has not been this promising since the nationalization of Kuwait's petroleum sector in the 1970s. The opportunities include: potential investment in the development of Kuwait's northern oilfields, major commercial opportunities in the construction of a new power plant and a new refinery, and the possibility of additional foreign direct investment in Kuwait's growing and lucrative petrochemical sector.

¶5. (U) On the flip side, the GOK has expressed an interest in partnering with a U.S. company to invest in additional refinery capacity in the U.S. This topic has seen a renewed interest by the GOK in light of new energy legislation in the U.S. and the pressing need for additional refining capacity highlighted by the recent hurricane damage in the U.S.

Assistance for Hurricane Katrina

¶16. (U) As the effects on the people, communities and businesses of the U.S. Gulf states became clear in the days following Hurricane Katrina, the Government of Kuwait (GOK) quickly demonstrated its friendship and its strong bond with the United States by becoming the largest donor in the world, with a pledged gift of \$500 million in assistance. The Prime Minister has already presented \$25 million to the Bush-Clinton Katrina Fund; another \$75 million will be donated for humanitarian projects. The remaining \$400 million will be disbursed after National Assembly approval. Although the President, Secretary Rice, and the Ambassador have all thanked the GOK and the Kuwaiti people for their extraordinary generosity, the visit presents another opportunity to express appreciation for Kuwait's assistance in our time of need.

Assistance for Iraq

¶17. (S) From December 2002 - December 2004, Kuwait provided nearly USD 2 billion in free fuel for U.S. and Coalition Force use in Operation Iraqi Freedom (OIF) and as Assistance in Kind (AIK) for Kuwait-specific activities under the Defense Cooperation Agreement (DCA). Kuwait continues to provide jet fuel at a discounted rate, saving the military and U.S. taxpayers millions of dollars a year. It also provides in-kind support, estimated at \$1-2 billion annually, for the U.S. military presence in Kuwait. Kuwait's support facilitates the U.S. military's mission in Iraq and Afghanistan, both of which are supported by U.S. forces in

KUWAIT 00004685 002 OF 005

Kuwait.

¶18. (U) Kuwait is also a generous financial supporter of countries and organizations where we have a strategic U.S. interest. It has provided financial assistance in the form of grants and concessionary loans to Iraq, Afghanistan, and the Palestinian Authority, and was quick to offer \$100 million in assistance to Pakistan after the recent earthquake.

Expanding the Energy Dialogue

¶19. (C) The excellent dialogue that we have had with Kuwait on global and bilateral energy issues continues, with a recent visit to the U.S. by Ministry of Energy Undersecretary Issa Al-Own. Al-Own and others in the Kuwait energy sector frequently attend U.S. conferences and seminars, and we encourage these visits as often as possible. Al-Own came away from his recent meetings with Department of Energy Deputy Secretary Clay Sell and Senior International Policy Advisor Molly Williamson with a renewed enthusiasm for an expanded energy dialogue. The GOK has also expressed interest in having U.S. private sector participation in a planned "GCC Strategic Studies Center" to be located in Kuwait and to focus on the intersection of energy and economic research.

OPEC Leadership

¶10. (U) Shaykh Ahmad has made a number of helpful statements throughout his tenure this past year as the OPEC President. He has said throughout the year that "OPEC remains committed to providing the oil market with extra supplies if the market so requires," and has continuously called for new investments in upstream and downstream capacity. Kuwait has been in the moderate price camp of OPEC for a number of years now. Shaykh Ahmad's Presidency of OPEC comes to an end at the end of December after the final OPEC meeting of the year, to be held in Kuwait in mid-December.

----- Energy Projects & Business Opportunities -----

Kuwait Project - Development of the Northern Oilfields -----

¶11. (SBU) The GOK wants to bring in outside investment from international oil companies (IOCs) in order to develop its northern oilfields and increase production in four specific fields from 450,000 bpd to 900,000 bpd. Pending National Assembly approval, KPC will award the development project to one of three oil company consortia. Chevron and ExxonMobil lead two of the consortia, while Occidental Petroleum is an investor in the third. The GOK hopes to pass the enabling law through the National Assembly by the end of this year. This USD 8.5 billion undertaking, known as "Kuwait Project," has been in the works for over ten years and oil companies are growing increasingly impatient with the numerous delays. The IOCs are also concerned about conditions set out in the final tender documents and whether the final package offered will have a large enough profit margin to merit their participation. The arrangement will be akin to a very large technical service agreement; companies will not be able to book reserves from the fields they will exploit.

Al-Zour Electricity Plant -----

¶12. (SBU) Al-Zour North (AZN) is a proposed USD 2.4 billion, 2500-megawatt electricity plant, currently in the bidding phase. In 1996, the Amir pledged the AZN contract would go to an American firm following the cancellation of a previous project that had been won by an American company. Recently, the GOK has backed away from the Amir's promise, saying the contract will go to the best-qualified firm internationally, however U.S. firms are leading most of the consortia bidding. These U.S. companies include Fluor Corporation, Black and Veatch, Shaw Group, Washington Group, Bechtel, and General Electric. Parsons Brinckerhoff is acting as technical advisor to the Ministry of Energy and they will serve as the "client's engineer," supervising the work of the engineering, procurement, and construction (EPC) contract winner.

KUWAIT 00004685 003 OF 005

New Refinery -----

¶13. (U) Kuwait's planned fourth refinery, to be located in the Al-Zour area in the south of the country, will reportedly be the world's largest and will refine 615,000 barrels of crude oil each day, according to Kuwait National Petroleum Company (KNPC) officials. This refinery project is part of a larger goal of expanding Kuwait's refining capacity from the current 930,000 bpd to 1.33 million bpd by 2010. The refinery will take approximately 66 months to complete, and is expected to begin production in 2010. The new refinery will replace the existing Shuaiba Refinery, which currently refines about 200,000 bpd but is scheduled to be decommissioned. The new refinery will produce naphtha, kerosene and diesel.

¶14. (U) Fluor is the Project Management Services Contractor for the new refinery. KNPC expects to list the qualified EPC contractors soon. Up from earlier estimates of around \$3 billion, the estimated cost for construction of the new refinery is now being reported as \$6.3 billion. The Kuwaiti private sector will be invited to participate through a 20% capital investment and through some construction work being awarded to local contractors. Fluor is also well-positioned to provide project management services on upgrades for the three existing refineries.

EQUATE And Other Petrochemical Opportunities

¶15. (U) Established in 1963, Kuwait's Petrochemical Industries Company (PIC) built the first chemical fertilizer complex in the region. Besides the company's own petrochemical facilities, it is involved in numerous joint ventures with international partners. The EQUATE joint venture brings together PIC and Dow Chemical, with a 10% share held by a publicly traded Kuwaiti company. The joint venture was established in 1995, with the first olefins plant commissioned in 1997. The plant produces ethylene, ethylene glycol and polyethylene. EQUATE has been very profitable for the partners in this joint venture and, this success has led to plans to establish new ventures for a second olefins plant and an aromatics facility. EQUATE made a \$600 million profit last year and is on track to repeat the performance this year. Through its work with Dow in EQUATE and through other projects, PIC has now become Dow Chemical's largest co-investor worldwide. In Kuwait alone, their joint investments total \$3-4 billion.

¶16. (U) The Secretary will tour EQUATE, hosted by PIC Chairman Saad Ali Al-Shuwaib and EQUATE CEO Hamad Al-Terkait. They will provide a brief overview of the joint venture, a description of their future plans, and a tour of their facilities.

Kuwait Investments in the U.S.

¶17. (U) The GOK has expressed an interest in partnering with a U.S. company to invest in additional refinery capacity in the U.S. This topic has seen a renewed interest by the GOK in light of new energy legislation in the U.S. and the pressing need for additional refining capacity highlighted by the recent hurricane damage in the U.S. While the Kuwaitis do not appear to have made formal overtures to any specific U.S. company, we should continue to encourage them to explore potential investments in U.S. refinery expansion and brief them on plans to streamline the regulatory system. The State of Louisiana, through its State Secretary for Economic Development, has been in contact with KPC's Washington office, and directly with the GOK, to showcase the economic and regulatory advantages of investing in new refining capacity in that state.

Kuwait's Gas Needs

¶18. (C) Kuwait is oil-rich and gas-poor, and needs to secure additional supplies of gas for its power plants and petrochemical facilities. Its options are limited and fraught with difficulties. The GOK is in talks with Iraq to secure a limited amount of gas, but it won't be enough to

KUWAIT 00004685 004 OF 005

meet Kuwait's needs. A long-stalled plan to import gas from Qatar via an undersea pipeline through Saudi Arabia's waters is being blocked by the KSA, due to longstanding irritations in the Saudi/Qatari relationship. Kuwait has limited options to drill for its own gas, with exploration in the most promising option, the offshore Al-Durra field, held up over a boundary dispute with Iran. We were advised recently that the Kuwaitis will begin to survey some undisputed areas of the field. Kuwait has also been in negotiations with Iran to import gas via pipeline. We have encouraged Kuwait to explore other options and have informed them of the potential for ILSA repercussions.

Promoting Study in the U.S.

¶19. (U) Since 9/11, Kuwait has seen the largest percentage drop of all the Middle East countries in the number of students studying in the U.S. From a pre-9/11 average of 2,800 Kuwaitis studying in the U.S., there were only 1,846

during the 2003-2004 academic year. If this trend continues, in less than 15 years, there will be far fewer Kuwaiti elite in academia and business, cultural, and political life who are intimately familiar with America and sympathetic to our values. The reasons for the sharp drop in the number of Kuwaitis pursuing advanced degrees in the U.S. are diverse: the misperceptions that visas are difficult to obtain and America does not welcome Muslims or Arabs, a growing preference to attend "American" universities in the region, and more students choosing Australia, Canada, and the UK. Embassy Kuwait has made increasing the number of Kuwaitis studying in the U.S. a Mission priority and is using Ambassadorial speeches, media interviews, the internet, and information fairs to promote the value and benefits of a U.S. education. The top executives of the Kuwait Petroleum Corporation subsidiaries are all U.S.-educated, allowing us to have open and meaningful communication with them on important energy issues. We (and U.S. energy companies) are concerned that a drop in the number of Kuwaitis studying in the U.S. will affect our energy dialogue years in the future.

MIT Connections

¶20. (U) On May 12, 2005, the Kuwait Foundation for the Advancement of Science and the Massachusetts Institute of Technology announced the creation of a research and education center devoted to progress on key environmental, hydrologic and energy resource goals. The foundation will fund the center at the level of \$11 million over 10 years. The Kuwait-MIT Center for Natural Resources and the Environment will be based at MIT. This organization, whose core staff is MIT faculty in the sciences, engineering and policy studies, will promote interdisciplinary work by those investigators, by MIT students, and by Kuwaiti researchers and students. There are other connections between Kuwait and MIT, including potential development of an entrepreneurship center.

Press Opportunities

¶21. (U) Post is eager for the Secretary to engage the Kuwaiti and locally-resident international media. As Kuwait has been a consistently reliable bilateral partner, the visit offers an opportunity to express gratitude to the Kuwaiti government and public for their ongoing support in all aspects of the Mission's areas of responsibility in the region. Most importantly, of course, we would like to acknowledge their continued support for the War on Terrorism and the building of democracy in neighboring Iraq. Additionally, it is important to recognize their remarkable generosity, whether it has been in support of military efforts in the region or through humanitarian assistance to the states affected by Hurricane Katrina in the Gulf of Mexico.

¶22. (U) Proposed media plan: We propose a 15-minute exclusive interview with the editor-in-chief, Walid Al-Nusif, of Al-Qabas newspaper, a moderate daily Arabic language newspaper, with the second largest distribution in Kuwait, (approximately 75,000 copies). In addition to this one-on-one interview, we recommend a media availability prior to departure with CNBC, Kuwait TV, and Al-Rai TV, accompanied by Kuwait News Agency (KUNA). The press conference would

KUWAIT 00004685 005 OF 005

open with a short statement, followed by a question and answer period, not to exceed ten-fifteen minutes total.

Overview of Embassy Kuwait

¶23. (U) Embassy Kuwait staff consist of 71 State Department American employees, 126 other agency Americans, and 350 local-hire staff. Other agencies at post include Department of Homeland Security (Customs), Foreign Commercial Service,

and nine Department of Defense agencies. The State component of the Embassy has grown almost 70% in the last five years. Local staff has increased 30% in the same time period. This growth is a direct result of the increased role for the bilateral mission due to Kuwait's strategic location and support of U.S. efforts in Iraq.

Overview of U.S. Military in Kuwait

¶24. (SBU) Kuwait provides a secure rear area for operations Iraqi Freedom and Enduring Freedom. Personnel and materiel rotating into and out of Iraq transit through Kuwait. Kuwait hosts U.S. forces at a number of camps throughout Kuwait, provides access to air and sea ports of embarkation/debarkation, and provides various types of support to U.S. forces stationed in country. The headquarters for Coalition Forces Land Component Command (CFLCC) is located at Camp Arifjan and is the largest U.S. military organization in country. The U.S. Air Force and Navy have units and operations in Kuwait as well. Kuwait is also a major customer for U.S. military equipment and services, both through Foreign Military Sales (FMS) and Direct Commercial Sales. Kuwait has 97 open FMS Cases (contracts) valued at nearly \$7 billion. Major U.S weapons systems include the M1A2 tank, F/A-18 aircraft, and Patriot missile system. More recently, Kuwait has purchased Apache helicopters and is considering the purchase of a significant number of naval systems as well. The Embassy's Office of Military Cooperation (OMC-K), one of the largest U.S. Security Assistance Organizations in the world, is responsible for FMS in Kuwait, as well as Security Cooperation with the Kuwait Armed Forces.

Visit Embassy Kuwait's Classified Website:
<http://www.state.sgov.gov/p/nea/kuwait/>

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